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The Director of Central Intelligence

Washington, D.C. 20505

12 SEP 1985

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MEMORANDUM FOR: The Honorable Caspar W. Weinberger
Secretary of Defense

SUBJECT: PRC Air Defense Capabilities and the US Air Force's
Assessment of the PRC-Taiwan Air Balance

1. As we discussed at breakfast on Friday, improvements in the Chinese air defense forces are somewhat of a mixed blessing. On one hand, it is in our interest that the air balance between China and the Soviet Union not become any wider. But, increases in the PRC's capabilities can potentially pose dilemmas for us in the years ahead.

2. The Chinese already manufacture an improved version of their F-7 (MIG-21) that incorporates the English-made Marconi radar and Head Up Display. They are attempting to market this airplane internationally for \$3.5 million per copy. At this price, a number of third world countries may see the F-7 as a good buy even though it suffers from a miserably short engine life. With a US engine, the export version would become a truly "hot" aircraft much in demand by financially strapped nations seeking more aircraft per dollar to fill out their inventory requirements. And, indeed, a potentially large market for low end high performance jet aircraft exists. As you know, numerous countries face requirements for replacing aging F-5As and Bs and similar aircraft in their inventories over the next few years. The most prosperous nations have opted for the US F-16 or like aircraft. Few, even among the economically advanced, however, can afford to modernize their force completely with high cost American and western European fighters. The F-7 export model and possible follow-on versions could provide an attractive alternative for purchase of low cost airplanes in quantity.

3. The Chinese apparently view the export of jet fighters as an important source of hard currency and an expanding business with a bright future. In their mind, improved aircraft only increases marketing

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opportunities. And, thus far, western technological innovations have been utilized primarily in systems they hope to sell abroad. They seem to have decided that newly acquired technologies from the West can play an important role in financing the development of Chinese military technologies for the future.

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8. Accordingly, I was delighted with your suggestion that the US Air Force could update the 1980 CIA study of the PRC-Taiwan air balance. I can think of few projects more important than this one. I am also told that the Air Force is by far the best choice to undertake such a study because of its expertise in the use of powerful air combat simulations. Of course, the Intelligence Community is prepared to assist the Air Force in any way we can. My point man on this is Carl Ford, the National Intelligence Officer for East Asia. He has identified three of our best CIA people to serve as consultants and otherwise lend a hand to those in the Air Force assigned the project. They are:

-- [] the author of the original CIA study;

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-- [] our specialist on adopting combat simulations for intelligence purposes; and

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-- [] the current China-Taiwan air analyst.

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We are also in contact with the appropriate experts at DIA. I believe that working together on this important study could pay enormous dividends.

WJ

William J. Casey

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